

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

First-Class Package Service (FCPS)
Service Standard Changes, 2021

Docket No. N2021-2

INITIAL BRIEF OF THE PUBLIC REPRESENTATIVE

(August 20, 2021)

Respectfully Submitted,
/s/ Mallory L. Smith
Public Representative for
Docket No. N2021-2

901 New York Ave, N.W. STE 200
Washington, DC 20268-0001
(202) 789-6822; Fax (202) 789-6891
mallory.smith@prc.gov

Samuel Koroma
Assisting the Public Representative

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I. INTRODUCTION

On June 17, 2021, the Postal Service filed a request with the Commission for an advisory opinion from the Commission regarding planned changes to the service standards for First-Class Package Service.¹ In essence, the Postal Service plans to lengthen the service standards for First-Class Package Service. Request at 3. Currently, First-Class Package Service operates within either a two- or three-day service standard. *Id.* at 4, Figure 1. The Postal Service's proposal would lengthen First-Class Package Service service standards into two-, three-, four- or five-day service. See *id.* The intended implementation of these proposed service changes is October 1, 2021. *Id.* at 1.

This brief outlines the legal standards applicable to the Commission's advisory opinion, as well as the Postal Service's plan and the supporting Witness Testimony which describe the rationale for the proposed service changes. The Public Representative then discusses the relative merits and shortcomings of the proposed service standard changes based on the record evidence. The Public Representative notes there are several areas of issue within the Postal Service's proposal including, but not limited to, the instant proceeding's reliance on Docket No. N2021-1, constraints inherent in the modeling, and reliability of cost savings estimates. The Public Representative genuinely appreciates the Postal Service's effort in developing cost savings strategies that also improve network efficiency and provide more reliable service to customers. Furthermore, she does not oppose the Postal Service's plan. However, as this proceeding relates to a competitive product, where unsatisfied customers have service options outside of the Postal Service, the Public Representative recommends that the Commission develop an advisory opinion that urges caution as it relates to the proposed service standard changes for First-Class Package Service.

¹ United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, June 17, 2021 (Request).

II. LEGAL STANDARD

Pursuant to 39 U.S.C. § 3661(b), when determining “that there should be a change in the nature of postal service which will generally affect service on a nationwide or substantially nationwide basis,” the Postal Service must submit a proposal to the Commission requesting an advisory opinion on the change. See 39 U.S.C. § 3661(b).

In doing so, the Postal Service requests that “the Commission issue an advisory opinion to the effect that the change in service standards for First-Class Package Service between certain Origin Destination (OD) pairs and to and from certain off-shore destinations conforms to the policies of title 39, United States Code.” Request at 1, 12-13.

As established in prior proceedings, by framing the Request in this manner, the Postal Service misconstrues the applicable statutory provision.² The statute does not require that the Commission issue an advisory opinion concerning whether the Postal Service’s proposed service standard changes conform to the policies of title 39. Instead, the statute requires that the Commission offer its advice on the proposal and requires that the Commission’s advice conforms to the policies of title 39. The statute thus does not require the Commission to provide simple approval or disapproval of a proposal, but rather requires for the Commission to provide its expert advice to the Postal Service, in conformance with the policies of the statute.

With this brief, the Public Representative seeks to provide an analysis of the Postal Service’s proposed service standard changes for First-Class Package Service that the Commission may consider and utilize as part of the development of its advisory opinion.

² Section 3661 of title 39 requires that the Commission’s advisory opinion conform to the applicable policies of title 39—not that the Commission review the Request for conformance to the policies of title 39. See, e.g., Docket No. N2014-1, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Service, December 27, 2013, at 1; Docket No. N2012-2, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, May 25, 2012 at 1; Docket No. N2012-1, Request of the United States Postal Service for an Advisory Opinion on Changes in the Nature of Postal Services, December 5, 2011, at 1; see also Docket No. N2014-1, Initial Brief of the Public Representative, February 20, 2014, at 5-6; Docket No. N2012-1, Initial Brief of the Public Representative, July 10, 2012, at 5-7.

III. POSTAL SERVICE PROPOSED SERVICE CHANGES AND RATIONALE

A. Postal Service Request

The Postal Service is proposing revisions to the current service standards for First-Class Package Service (a Postal Service competitive product) “in a manner that would ‘generally affect service on a nationwide or substantially nationwide basis.’” Request at 2-3.

These service standard changes mirror, and are predicated upon, the service standard changes proposed for Single-Piece First-Class Mail (a Postal Service market dominant product) in Docket No. N2021-1.³ The service standard changes proposed in both Docket N2021-1 and the instant proceeding are a part of the Postal Service’s larger plans to reorient its network to the current needs of mailers and ensure a sustainable business model moving forward.⁴

These revisions expand the two-day service standard for First-Class Package Service “to reflect the central importance of providing one-to-two day regional delivery in today’s package market.” *Id.* at 3. First-Class Package Service will also be adjusted “by narrowing the scope of the three-day service standard and applying four-day and five-day standards to ... volume traveling longer distances between origin and destination.” *Id.* Simply put, this proposal extends the service for First-Class Package Service from two- or three-day service categories to two- through five-day service categories.⁵ The Postal Service states that the proposed changes enable it to better align service standards with operational capabilities and address the problems

³ See Docket No. N2021-1, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Service, April 21, 2021 (Docket No. N2021-1 Request).

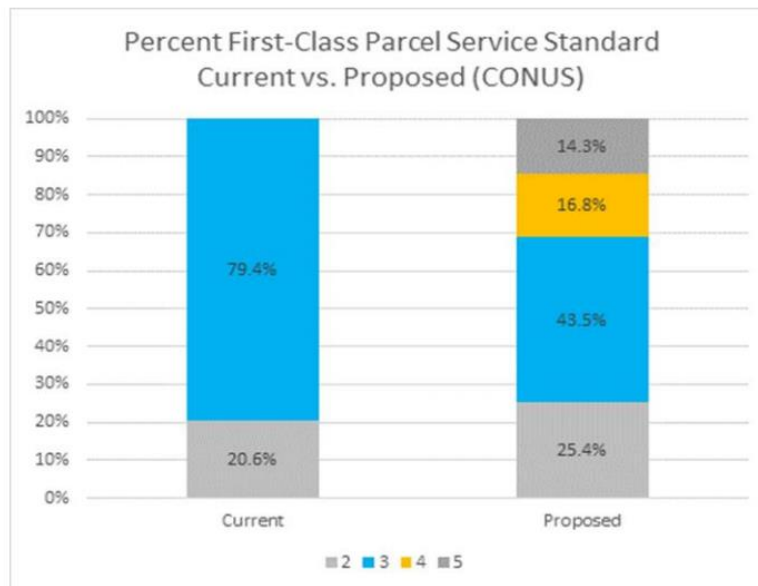
⁴ See United States Postal Service, Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, March 23, 2021, available online at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_DeliveringForAmerica.pdf (Delivering for America Plan).

⁵ See *also* Docket No. N2021-1 Request, at 5, Figure 1.

associated with the current service standards. Request at 9. Figure 1 of the Request illustrates changes to First-Class Package Service volume under the proposal.⁶

Figure III-1

First-Class Package Service Volume by Service Standard⁷



⁶ See Notice of the United States Postal Service Revisions to Certain Pages of the Request for Advisory Opinion, USPS-T-1, USPS-T-2, and USPS-T-3 – Errata, July 2, 2021 (Request – Errata) at 4, Figure 1.

⁷ *Id.*

Table III-1 illustrates the circumstances under which each proposed service standard will apply.

Table III-1
Proposed Postal Service FCPS Service Standards⁸

Service Standard	Applicability
Two-Day	<ul style="list-style-type: none"> • Combined drive time between origin P&DCF, Destination ADC, and destination SCF < 8 hours
Three-Day	<ul style="list-style-type: none"> • Combined drive time between origin P&DCF, Destination ADC, and destination SCF > 8 hours and < 32 hours
Four-Day	<ul style="list-style-type: none"> • Combined drive time between origin P&DCF, Destination ADC, and destination SCF > 32 hours and < 50 hours • Some FCPS where origin and/or destination are in non-contiguous U.S.
Five-Day	<ul style="list-style-type: none"> • Combined drive time between origin P&DCF, Destination ADC, and destination SCF > 50 hours • All other FCPS to non-contiguous U.S. destinations

As it relates to pharmaceutical volume, the Postal Service projects that those mailpieces would experience less impact from the proposed changes than other First-Class Package Service volume, estimating that almost all pharmaceutical volume currently subject to the two-day service standard and the majority of pharmaceutical volume currently subject to the three-day service standard would remain subject to those respective service standards. See Request at 5. The Postal Service acknowledges that some pharmaceutical volume would be subject to a four- or five-day service standard. *Id.*

⁸ See Request at 3, 5. “SCF” refers to “Sectional Center Facility.” *Id.* at 3. “P&DCF” refers to Processing & Distribution Center or Facility. *Id.* “ADC” refers to Area Distribution Center, available at: https://about.usps.com/publications/pub32/pub32_terms.htm#ep1025185.

B. Witness Testimony

The Postal Service's proposal is supported by the accompanying testimony of several witnesses. Witness Stephen B. Hagenstein's testimony describes the proposed service changes and its benefits.⁹ Witness Thomas J. Foti uses market research to estimate potential volume and contribution impacts that may result from the Postal Service's proposed service changes.¹⁰ Witness Foti also discusses how the Postal Service's proposed service changes may impact customer satisfaction. *Id.* Witness Michelle Kim discusses the impact that the Postal Service's proposed service changes will have on its financial situation.¹¹

As part of its rationale for the proposed service changes, the Postal Service indicates that the current service standards, which require First-Class Package Service items with origins and destinations within the contiguous United States (generally speaking) to be delivered in two to three days, make it difficult for the Postal Service to provide reliable and consistent service. Request at 6; Witness Hagenstein Testimony at 1. As Witness Hagenstein notes, in order to meet current service standards "a significant quantity" of First-Class Package Service must be transported by air, rather than by more cost-effective and reliable surface transportation. Witness Hagenstein Testimony at 1. The Postal Service further indicates that these shorter service standards result in high costs and inefficiencies in the transportation network that are characterized by an over-reliance on air transportation and low utilization of truck capacity in long-haul surface transportation. Request at 6.

The Postal Service mentions three main objectives that these service standard changes will achieve. First, it indicates that the proposed changes will "enhance [its]

⁹ See Request at 6; see *also* Notice of Filing Replacement Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1), June 21, 2021 (Witness Hagenstein Testimony), at 1.

¹⁰ See Request at 7; see *also* Direct Testimony of Thomas J. Foti on Behalf of the United States Postal Service (USPS-T-3), June 21, 2021 (Witness Foti Testimony).

¹¹ See Request at 8; see *also* Direct Testimony of Michele Kim on Behalf of the United States Postal Service (USPS-T-2).

ability to run the operating plan and to adopt strategies to increase the efficiency of the surface transportation network.” *Id.*; Witness Hagenstein Testimony at iii. Second, the proposed service changes will “enable the implementation of additional initiatives in the future to further streamline and improve the processing and logistics network.” Request at 6; Witness Hagenstein Testimony at iii-iv. Finally, the proposed service changes will “enable an increase in the use of more cost-effective air carriers for volume, such as those going to non-contiguous areas, that must remain in the air.” Request at 7; Witness Hagenstein Testimony at iv.

Witness Hagenstein explains that “substantial room for improvement in service performance” exists and it requires moving volume from air transportation to surface transportation. Witness Hagenstein Testimony at 1.

In order to meet current service standards, the Postal Service must transport mailpieces by air and much of that volume is transported using commercial passenger air carriers. *Id.* at 2. However, he notes that, commercial passenger air carriers can be “volatile and subject to last-minute changes based upon weather delays, network congestion, and air traffic control ground stops.” *Id.* These types of delays occur less frequently with surface transportation making surface transportation more reliable. *Id.* Thus, as it relates to reliability and on-time performance, surface transportation is preferential to air transportation. Additionally, Witness Hagenstein indicates that the Postal Service uses only 42 percent of surface transportation capacity and maintains the network has “ample existing capacity to absorb” the shifting volumes described in its proposal. *Id.* at 2. He further indicates that the shifting volumes will not negatively affect the reliability of surface transportation. *Id.*

In terms of efficiency, Witness Hagenstein indicates that the proposed service standard changes opens opportunities to route volumes more efficiently.” *Id.* at 18. This is because it will ensure volumes are properly loaded onto designated transportation. *Id.* Currently, early dispatches are necessary to achieve service standards, which leads to transportation that departs without all committed volumes “leading to operational plan failures and missed service standard targets. *Id.* at 17. Indeed, Witness Hagenstein states that allowing the Postal Service to move greater

volumes of First-Class Package Service mailpieces using more reliable surface transportation will, in fact, require fewer surface transportation trips than currently required. *Id.* at 3. The Postal Service anticipates eliminating the total number of touch points by moving First-Class Package Service from air transportation to surface transportation. *Id.* Currently, there are 11 touch points services for First-Class Package Service volume that uses air transportation. *See id.* Under the proposed service standard changes, the First-Class mail volume will be transported through the surface network and reduced to 5 touch points. *Id.*

Figure III-2
Touch Points Elimination¹²



As it relates to cost reductions, Witness Hagenstein states generally that surface transportation is more cost effective than air transportation. *Id.* at iii, 5, 10. In addition, he states that the movement of volumes to surface transportation will result in a reduction of “costly ad hoc charter flights currently utilized to help cover capacity shortfalls in the current air network.” *Id.* at 4.

Witness Hagenstein explains that the Postal Service’s rationale described above is based on modeling performed to study and validate the operational benefits described by the Postal Service. He also notes that the modeling relies on the

¹² See *id.*

successful implementation of the service standards proposed in Docket No. N2021-1.¹³ *Id.* at 7.

As it relates to retaining customers, Witness Foti maintains that, despite the proposed service standards changes, the Postal Service believes customers will continue to choose First-Class Package Service “because of the enhanced reliability that will come from these service changes and [its] competitive price in the marketplace.”¹⁴ Witness Foti states that the Postal Service’s projections indicate First-Class Package Service will continue to show modest growth in the years to come. Witness Foti Testimony at 2. This is because continued reliance on e-commerce is expected and First-Class Package Service “currently offers the best value proportion of fast delivery time and low prices within the lightweight market. *Id.*; *see also id.* at 4. He states that reliability is, and will continue to be, “a key driver of satisfaction for [] shipping customers.” *Id.* at 5. Witness Foti further indicates that once service reliability for First-Class Package Service improves, “opportunity exists to capture additional package volume and drive incremental market share.” *Id.*

As it relates to commercial customers, a survey was conducted in order to determine whether mailers may be receptive to prolonged service standards in return for improvements in the reliability of First-Class Package Service.¹⁵ Survey results indicated that First-Class Package Service-Commercial mailers would “maintain or, in some cases, increase [First-Class Package Service] volumes” under the proposed service standard changes. *Id.* at 8. As it relates to First-Class Package Service-Retail customers, Witness Foti appears to indicate that, because First-Class Package Service is “positively differentiated by its price compared to other market offerings with similar service standards,” and the product will experience “improve reliability in meeting service expectations,” the Postal Service expects to maintain volumes. *Id.* at 7-8. Witness Foti also notes that, should customers seeks faster delivery times, they may

¹³ *See id.* at 7; *see generally* Docket No. N2021-1 Request.

¹⁴ *Id.* at 3. Witness Foti indicates that First-Class Package Service will continue to be highly price-competitive in the lightweight package market in the future. *Id.* at 7.

¹⁵ *Id.* at 6-7. The survey was conducted by The Colography Group. *See id.*

opt for the Postal Service's Priority Mail product. *Id.* at 8. This view is confirmed by the Postal Service in its Request. Request at 10.

Witness Foti maintains that the expectation is that First-Class Package Service volumes "will not be materially affected" by the proposed service standard changes. *Id.*; Request at 7.

As it relates to estimated cost savings, Witness Kim provides various types of cost savings the Postal Service may experience.

She states that the expected cost savings from a reduction in air capacity across all carriers is \$304 million dollars.¹⁶ She indicates that an additional \$15 million to \$98 million dollars in cost savings may be possible when reducing use of higher-cost charter air transportation. See *id.* at 4.

Witness Kim notes a \$31 million dollar decrease from decreases in network capacity from Inter-Cluster or Inter P&DC contract types. *Id.* at 7. However, Witness Kim notes a \$21 million dollar increase in network capacity from Inter-Area contracts. Witness Kim Testimony at 7. The combination of these will result in a net cost savings of \$10 million dollars in purchased highway transportation costs. Request – Errata, Witness Kim Testimony at 7-8. Witness Kim further notes that the optimization of the NDC network could result in an additional \$62 million to \$116 million dollar cost saving. Witness Kim Testimony at 8.

Thus, the anticipated net cost savings between reduction in air transportation and changes to highway capacity is \$314 million dollars. Request – Errata, Witness Kim Testimony at 8-9. In addition, further savings related to decreased usage in charter flights and optimization of the NDC network may also occur.¹⁷

¹⁶ Request – Errata, Witness Kim Testimony at 8

¹⁷ *Id.* 4, 8. As Witness Kim notes, these two potential areas of opportunity for cost savings have not been fully modeled yet.

The cost savings described above “are the result of a combined model of both First-Class Mail and First-Class Package Service service standard changes being implemented *together*.”¹⁸ *Id.* at 9 (emphasis added).

In summary, the Postal Service maintains that the testimonies from its witnesses “demonstrate a number of significant benefits” related to the proposed service standard changes. Request at 8. Namely, the changes will result in more reliable and consistent service, cost savings, and further operational benefits. Furthermore, the Postal Service states that the proposed service changes support its long-term sustainability, as well as its ability to “continue to provide universal mail and package delivery, and to preserve regular and effective access to all community.” *Id.* at 10. The Postal Service maintains that the proposed service standards change will “enhance the value of postal services for both senders and recipients.” *Id.* at 10-11.

IV. ANALYSIS OF PROPOSED SERVICE CHANGES

The Public Representative acknowledges that, on its face, shifting First-Class Package Service volume from high cost and volatile air transportation to more reliable and efficient surface transportation, with lower costs, appears reasonable. Especially in light of the product’s service performance record to date.¹⁹ The Public Representative also recognizes the Postal Service’s financial situation is precarious and that efforts to decreasing costs and improving efficiency must be implemented in order to achieve financial stability.²⁰

¹⁸ *Id.* at 9 (emphasis added); see also Docket No. N2021-1 Request.

¹⁹ See Library Reference USPS-LR-N2021-2/NP2 – Model Input Data and Results (Witness Hagenstein), June 17, 2021; see also Docket No. ACR2020, Library Reference USPS-FY20-NP30 – Service Material (Nonpublic Portions), December 29, 2020.

²⁰ See Appendix A: United States Postal Service, Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, March 23, 2021, at 3, available at, https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf (Postal Service’s Strategic Plan). Further information related to the Postal Service’s Strategic Plan see <https://about.usps.com/what/strategic-plans/delivering-for-america/>.

However, the Public Representative discusses several areas of concern related to the proposed service standard changes for First-Class Package Service, which are discussed below.

A. Reliance on Service Standard Changes Proposed in Docket No. N2021-1

As indicated above, the Postal Service's proposed service standard changes in the instant proceeding are predicated on the implementation of the service standard changes proposed in Docket No. N2021-1.²¹ Indeed, the implementation date of the changes for First-Class Package Service coincide with the implementation date of the changes to First-Class Mail and Periodicals.²² It is important to note that the service standard changes that will be implemented as described in Docket No. N2021-1 have no proven record of success, and no operational or pilot testing has occurred, a fact the Commission identified in its Advisory Opinion.²³ Thus, the instant proceeding and the service standard changes described above rely on simultaneous service standard changes with projected results that may never be realized.²⁴

The Public Representative understands the Postal Service's need to develop cost saving opportunities, improve product reliability, and otherwise optimize parts of its network. However, she believes the implementation of both service standard changes (Docket Nos. N2021-1 and N2021-2), without adequate testing, opens up the Postal

²¹ See Witness Hagenstein Testimony at 37 ("The savings presented here would not be applicable if [First-Class Package Service] service standards were to change while [First-Class Mail] and end-to-end Periodicals service stands remained at current levels.").

²² See Request at 1. Originally, in Docket No. N2021-1, the Postal Service indicated that its proposed service standard changes for First-Class Mail and Periodicals would occur no sooner than September 1, 2021. See Docket No. N2021-1 at 2. However, in noticing its final rules related to the service standard changes, the Postal Service indicates a revised implementation date. See <https://www.govinfo.gov/content/pkg/FR-2021-08-11/pdf/2021-17127.pdf>.

²³ Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021, at 99.

²⁴ Although it is accurate to say that the proposed service standard changes for First-Class Package Service have also not been operationally or pilot tested, it is important to note that the proposed service standard changes for First-Class Package Service cannot be implemented in isolation and the proposed service standard changes described in Docket No. N2021-1 *could* be implemented on their own.

Service to potential risks. These risks are noted throughout the remainder of this chapter.

B. Network Capacity and Service Performance

As noted above, in recognition of its continued inability to meet First-Class Package Service service standards the Postal Service is proposing to expand the two-day service standard for First-Class Package Service to “reflect the central importance of providing one-to-two-day regional delivery in today’s marketplace.” See Request at 3. The Postal Service also seeks to adjust the service standards for First-Class Package Service within the contiguous United States by narrowing the scope of the three-day service standard and applying four- and five-day service standards to First-Class Package Service volume with longer distances between origin and destination. *Id.* Thus, the purpose of the Postal Service’s proposed service standard changes is, in part, to improve the reliability of the First-Class Package Service product.

The Postal Service maintains that the current surface transportation network can absorb any added capacity such that the intended on-time performance goals are met. This is because, currently, only 42 percent of the Postal Service’s surface network is utilized. Indeed, the Postal Service indicates that it does not anticipate surface transportation to be negatively affected by the service standard changes and increased volume that will enter the surface network. Witness Hagenstein Testimony at 2.

The Public Representative commends the Postal Service on its frank assessment in not meeting service standards for First-Class Package Service and the ensuing effort to ameliorate the problem.

The Postal Service’s intent to optimize and leverage the expanded transportation window to accommodate the volume shift from air transportation to surface transportation, while also increasing routing efficiency, appears appealing because it presents the potential for increased on-time service performance and reliability. In addition, the preferred use of surface transportation over air transportation in specific lanes appears reasonable based on the supporting data provided by the Postal Service.

However, the Public Representative cannot state with certainty that the Postal Service's proposal supports the conclusion that the current surface network can absorb increased volumes from *both* First-Class Mail and Periodicals *and* First-Class Package Service.²⁵ Having said that, the Public Representative acknowledges that Postal Service identifies and outlines corrective measures it may take should capacity issues arise and, based on the information provided, she finds the corrective measures are reasonable, but they will also require the Postal Service to incur more costs.²⁶

The Public Representative notes that the Postal Service's transportation and mail processing network is dynamic. Thus, the Public Representative reiterates that, simply shifting First-Class Package Service volume, *as well as* First-Class Mail and Periodicals volume from air transportation to surface transportation, at this scope and magnitude and with no adequate operational or pilot test, is problematic. Additionally, the proposed service standard changes do not automatically solve the service performance issues unique to surface transportation.²⁷ The analysis the Postal Service presents supports the conclusion that, presently, numerous issues beset surface transportation reliability.²⁸ As such, the Public Representative again notes that the Postal Service would have been better served by evaluating the proposed service standard changes prior to implementation through an operational or pilot test.

As it relates to service performance targets, while the potential exists for the Postal Service to achieve its stated 95 percent on-time service performance target in the long-run, it has not provided any degree of certainty that this goal will be achieved in the short-run. The Postal Service's previous ambiguous response lends credence to

²⁵ See Revised Response of United States Postal Service Witness Hagenstein to PR/USPS-T1-8 – Errata, July 19, 2021, at question 7.

²⁶ See Responses of the United States Postal Service to Question 1-7 and 9-19 of Presiding Officer's Information Request No. 11, August 12, 2021, at question 3.

²⁷ See Response of United States Postal Service Witness Hagenstein to Intervenor American Postal Workers Union, AFL/CIO's Interrogatories 1-3, 5-13, and 16, July 27, 2021, at question 7. APWU T-1 and question 7.

²⁸ See *generally* Library Reference USPS-LR-N2021-2/NP16, Nonpublic Material Provided by Witness Hagenstein in Response to Presiding Officer's Information Request No. 7, July 29, 2021; Library Reference, USPS-LR-N2021-2/NP20, Nonpublic Material Provided by Witness Hagenstein in Responses to Presiding Officer's Information Request No. 10, August 10, 2021.

this assertion.²⁹ In addition, the Postal Service's responses in the instant proceeding further affirm the uncertainty of achieving the 95 percent on-time performance.³⁰ The Postal Service was specifically asked whether it expects First-Class Package Service on-time service performance to meet or exceed the 95 percent target level for FY 2022, and the response was no.³¹ As a result, the Public Representative cannot recommend that the Commission rely on the Postal Service's assertions in developing its advisory opinion.

C. Modeling, Assumptions and Constraints

Witness Hagenstein indicates that the network scenarios were modeled using logistics industry optimization software, Blue Yonder® Transportation Modeler (TMOD).³² Due to the impact to the current surface transportation network and the introduction of new OD Pairs to the surface network, the modeling was an iterative process to maximize network efficiencies and ensure accurate comparative analysis of results. The iterative process first created a model to optimize the current surface transportation pairs, then introduced current air transportation OD Pairs into the model, and finally analyzed 'cost effectiveness of the model's routing results for current air transportation OD pairs. *Id.* The Postal Service evaluates a proposed air-to-surface lane and compares the estimated cost for the surface trip to the estimated cost to fly that volume by converting the pieces to weight and applying current air carrier market shares with associated costs. The final surface routing model result is a combination of the new surface transportation routings added exclusively for current air transportation

²⁹ See Docket No. 2021-1, Responses of the United States Postal Service to Questions 1-11, 13-34 of Presiding Officer's Information Request No. 1, May 17, 2021, at question 5.

³⁰ See Response of the United States Postal Service to Question 1-22 of Presiding Officer's Information Request No. 4, July 23, 2021 (Responses to POIR No. 4), at question 9; see also Responses of the United States Postal Service to Question 1-7 and 9-19 of Presiding Officer's Information Request No. 11, August 12, 2021, at question 7.

³¹ See Responses to POIR No. 4, question 9.

³² USPS-T-1 at 18. TMOD specializes in optimizing both large and small transportation networks by providing users with a vast array of customizable variables and inputs. Here, TMOD build 2019.1 and PC*Miler 30© were employed.

OD pairs that are determined to be cost effective and the optimized surface routings that combined both current surface and air OD Pairs in the second model iteration. *Id.* The modeling also includes transportation assumptions and other general assumptions extracted from the USPS Web End-Of-Run (EOR) database.

Finally, the modeling assumed implementation of the proposed service standards changes to First-Class Mail and Periodicals contemplated in Docket No. N2021-1. Modeling the service standard change of both First-Class mail and First-Class Package Service provides greater insight into the potential network efficiency improvements. When evaluating air to surface mode shifts, the combined volume of mail and packages improves trip utilization and increases the cost effectiveness of shifting lanes from air to surface.

The Public Representative notes; however, that a number of constraints affect the modeling. As a general matter, the TMOD optimization model utilizes an advanced set of heuristics, and, as with all heuristic models, can produce results that are less than optimal. TMOD offers a variety of ways to approach many of our business rules, and seemingly small changes can sometimes have large unexpected impacts on the results due to the heuristic nature. To ensure we are using the best solution, each model is run multiple times to ensure similar results are obtained. Several constraints of the modeling require manual input or post-processing refinement to mitigate the impact of these constraints. Witness Hagenstein Testimony at 12-20.

TMOD does not inherently support viable transit times based on traffic or other known factors. As such, known transit time adjustments are currently manually input into the model. Currently TMOD cannot support the complexity of our air network to completely model mode selection. To accommodate this factor, the model is used to identify air pairs that are eligible to be routed via surface transportation using time and distance data. The final mode selection for these eligible lanes is performed outside the model. *See id.*

Given the complexities involved in the modeling³³ and the Postal Service's admission that seemingly small changes can sometimes have large unexpected impacts on the results due to the heuristic nature of the model, there is no shortage of speculations on the validity of the models output. Furthermore, significant post-processing to refine results of surface network routing into actual routings that can be implemented can be problematic as the Postal Service rightly noted "[t]his is due to multiple factors including the TMOD software's ability to build only one-way trips, potential relationships with transportation outside the scope of this model, site-specific operational nuances, and Department of Transportation requirements." Witness Hagenstein Testimony at 32.

For example, the Postal Service's Response in POIR No. 2 acknowledges inadvertently omitting the feeder to aggregate mileage which reduced the overall mileage in each category, particularly in the inter-P&DC category, and therefore inflated the reduction percentages.³⁴ This error had a domino effect on the testimonies of all Postal Service's witnesses. See *generally* Request – Errata. Table IV-1 below illustrates this discrepancy.

³³ The Postal Service expended considerable effort and instituted guardrails to ensure model efficiency, however, the complexity of the air and surface networks, executing several iterations, running the model multiple times, adjustments manually inputted into the model makes the model susceptible to errors, flaws and other deficiencies.

³⁴ See Response of United States Postal Service to Questions 1-15 of Presiding Officer's Information Request No. 2, July 8, 2021 (Response to POIR No. 2), at question 2.

Table IV-1**Example of Modeling or Input Error and Implication**

First-Class Mail and Parcels Model						
	Baseline (Current SSD Model)		5 Day		Feeder to Aggregate Add-backs	Comparison Metrics (Delta to baseline)
Finance Category	Modeled Mileages	Total Mileage	Modeled Mileages	Total Mileage	Add-back Mileage	% Mileage Difference
Inter-Area	1,660,846	1,666,328	1,696,056	1,701,538	5,482	-2%
Inter-Cluster	447,330	478,193	396,391	427,254	30,863	11%
Inter-P&DC	31,126	79,109	27,229	75,213	47,983	5%
Grand Total	2,139,302	2,223,630	2,119,677	2,204,005	84,328	1%

First-Class Mail Only Model						
	Baseline (Current SSD Model)		5 Day		Feeder to Aggregate Add-backs	Comparison Metrics (Delta to baseline)
Finance Category	Modeled Mileages	Total Mileage	Modeled Mileages	Total Mileage	Add-back Mileage	% Mileage Difference
Inter-Area	1,660,846	1,666,328	1,551,163	1,556,645	5,482	7%
Inter-Cluster	447,330	478,193	431,135	461,998	30,863	3%
Inter-P&DC	31,126	79,109	28,878	76,861	47,983	3%
Grand Total	2,139,302	2,223,630	2,011,176	2,095,504	84,328	6%

The Postal Service states that “[t]he model assumes consolidation of volumes from smaller origins into aggregation sites. The mileage for the feeder to aggregate trips is estimated outside of the model and added-back to the overall mileage comparisons. Originally, this mileage was inadvertently omitted from the reduction analysis.”³⁵

The Public Representative does not expect the Postal Service to develop a perfect model as that would be unreasonable. However, since the modeling underpins the Postal Service’s Request and proposed service standard changes, any assumptions, constraints, and iterations must be viewed critically.

D. Impact on Customer Satisfaction

As discussed above, the Postal Service indicates that, currently, First-Class Package Service offers the best value for customers in that it provides fast delivery times as well as competitive prices within the lightweight market. Witness Foti

³⁵ See Response of United States Postal Service to Questions 1-15 of Presiding Officer’s Information Request No. 2, July 8, 2021, at question 2.

Testimony at 2. Thus, current customer satisfaction is based on speed of delivery and pricing. Indeed, the Postal Service notes that “reliability” is one of the key drivers of customer satisfaction. *Id.* at 5. Because the proposed service standard changes will result in improved reliability and pricing will remain competitive, the Postal Service anticipates that customers will continue you use First-Class Package Service despite longer transportation times for some mailpieces. *Id.* at 3. In fact, the Postal Service indicates that improving service reliability for First-Class Package Service may create an opportunity to capture additional package volume and drive incremental market share. *Id.* at 5.

The Public Representative notes that accurate information related to customer satisfaction can provide useful insight into whether customers are likely to continue using a product. Thus, an important consideration of any proposed service change is whether or not customers will be receptive to the changes. As noted above, the Postal Service asserts that the most predictive driver of customer satisfaction is reliability. It sights the Brand Health Tracker (BHT) survey Q1 2021 as the source of this conclusion to support its focus on reliability in customer satisfaction. *Id.* at 5, n.21. However, the Public Representative wonders whether reliability will continue to be the key driver of customer satisfaction as mailers begin to experience prolonged service times.

In terms of types of customers, the Public Representative notes that First-Class Package Service has two key product lines, Retail and Commercial, which caters to the varied needs of shipping customers.

For retail mailers, the Postal Service appears confident that increased reliability will lead to enhanced customer satisfaction because mailers will have greater certainty of on-time delivery expectations.³⁶ The Public Representative finds that the Postal Service’s expectations as it relates to First-Class Package Service-Retail mailers lacks any degree of supportive data. Assuming the proposed service standard changes result in more reliable service, it is possible that First-Class Package Service-Retail mailers

³⁶ See Responses of the United States Postal Service to Questions 1-6 of Presiding Officer’s Information Request No. 8, August 5, 2021, at question 3.

will appreciate that reliability and continue to use the product. The inverse is also possible. As such, the Public Representative notes that it is possible customer satisfaction could be negatively impacted, leading to decreased volumes, revenue and contribution in the long-run. The Postal Service's conclusions are fairly speculative. Nothing in the Postal Service's Request permits an accurate assessment as to whether First-Class Package Service-Retail mailers are likely to be satisfied with the service standard changes.

For commercial mailers which makes up the bulk of First-Class Package Service mailers, the Postal Service provides more support for its assertions related to customer satisfaction. As discussed above, the Postal Service specifically surveyed First-Class Package Service-Commercial mailers in order to determine how much volume a mailer may switch to other delivery services if the Postal Service implemented the proposed service standard changes. As the Postal Service notes, the majority of sampled First-Class Package Service-Commercial mailers would maintain or increase volumes of First-Class Package Service under the proposed service standard changes. Witness Foti Testimony at 8. Thus, the Public Representative finds that the Postal Service's conclusions related to First-Class Package Service-Commercial mailers appears reasonable.

Realistically, even assuming improvements in on-time performance occurs, the Public Representative notes there is simply no guarantee that extending delivery times for some First-Class Package Service mailers may not have a negative impact on customer satisfaction, resulting in negative volume, revenue, and contribution impacts in the long-run. It is possible that the negative impact of service degradation may outweigh the positive impact of reliability in an untested highly competitive market.

E. Impact on Pharmaceuticals

The Public Representative recognizes that different First-Class Package Service customer segments and specific individuals will be impacted in unique ways based on their respective needs. Thus, despite First-Class Package Service's status as a competitive product and the fact that customers are free to select other delivery

providers, the Postal Service must be mindful of any service standard changes that impact customers who rely on the Postal Service for critical services. More specifically, individuals who are physically impaired, live in rural areas, and receive their pharmaceuticals only by mail. These customers are more likely to be negatively impacted by the proposed service standard changes.

As noted above, the Postal Service's maintains that its proposed service changes will have negligible impact on pharmaceutical customers. Furthermore, the Public Representative concurs that in the model's projection, if accurate, pharmaceutical volume would be less impacted by the proposed service changes than other First-Class Package Service volume. Thus the Public Representative finds the Postal Service conclusions as it relates to pharmaceuticals is reasonable. The Public Representative also acknowledges the Postal Service's continued commitment to delivering pharmaceuticals to the customers that rely upon them.³⁷ The Public Representative hopes the Postal Service continues its commitment to delivering pharmaceuticals, especially for those customers whose options in receiving those items are limited.

F. Projected Cost Savings

As noted above, the Postal Service's projects costs savings of \$314 million between the reduction in air transportation across all carriers and changes in surface transportation. The table below illustrates the expected and potential cost savings as described by the Postal Service.

³⁷ See Responses of the United States Postal Service to Questions 1-6 of Presiding Officer's Information Request No. 8, August 5, 2021, at question 2; *see also* Docket No. ACR2020, Responses of the United States Postal Service to Question 1-7, 10-20 of Chairman's Request No 6, February 4, 2021, at question 16.

Table VI-2**Expected and Potential Cost Savings³⁸**

Expected Cost Savings			Potential Cost Savings				Potential Savings - Charters		
Service Type	Capacity Change	Cost	Service Type	Capacity Change Lower Range	Capacity Change Upper Range	Cost Savings Lower Range (\$)	Cost Savings Upper Range (\$)	Cost Savings Lower Range (\$)	Cost Savings Upper Range (\$)
Air	-61.20%	-304,000,000	Highway					15,000,000	98,000,000
Highway			Inter-NDC	14%	28%	(49,000,000)	(97,000,000)		
Inter-Cluster	-10.70%	-24,000,000	Intra-NDC	6%	8%	(14,000,000)	(18,000,000)		
Inter-PDC	-4.90%	-7,000,000		Net Savings		(63,000,000)	(115,000,000)		
Inter-Area	2.10%	21,000,000							
	Net Savings	-314,000,000							

However, these cost savings are based on the results of a *combined* model of both the First-Class Mail and Periodicals service standard changes (Docket No. N2021-1) and the First-Class Package Service service standard changes being implemented together. Deducting the First-Class Mail and Periodicals-only cost savings presented in Docket No. N2021-1, which make up the bulk of the expected cost savings (\$272 million), results in cost savings for First-Class Package Service of \$42 million. Request – Errata, Witness Kim Testimony at 9. Thus, in order to achieve the larger cost savings figure of \$314 million, the service standard changes must be implemented together. This reliance is noted above by the Public Representative. In regards to the “potential” cost savings discussed by Witness Kim should the NDC network be optimized, the Public Representative notes that those cost saving estimates are in development.³⁹

In general terms, the Public Representative finds that it is likely the Postal Service would experience cost savings by moving volume from air transportation to surface transportation, which includes a decreased on commercial air transportation and a reduction in costly ad hoc charter flights and air cargo transportation. The Public Representative notes that the existing service standards do not provide the Postal Service the flexibility it needs to use commercial air carriers. By moving First-Class Package Service volume to less costly surface transportation and by lengthening the

³⁸ See USPS-T-2 at 7, 8; see also Notice of the United States Postal Service Revisions to Certain Pages of the Request for Advisory Opinion, USPS-T-1, USPS-T-2-, and USPS-T-3 – Errata, July 2, 2021.

³⁹ See Witness Kim Testimony at 9; see also Responses of the United States Postal Service Witness Hagenstein to the Public Representative’s Second Set of Interrogatories and Requests for production – PR/USPS-t1-9-10, at question 9.

transportation window, the Postal Service would be provided with additional time and utilize its network more efficiently and appropriately, especially in terms of OD pairs of greater distances. The Public Representative also notes that the methodology employed to calculate the projected cost savings is sound. Furthermore, the Public Representative finds that the cost savings analysis, as presented, from a business perspective is reasonable. Moving volume from air transportation which is volatile, at times unreliable, and expensive, to surface transportation, which is less likely to experience disruptions, is more reliable, and has lower costs, is sensible. And given the Postal Service's financial situation, any potential cost savings, even in small amounts, that could be said to be accurately estimated should be encouraged.

However, in this instance, the Public Representative cannot conclusively say that the projected cost savings analysis is accurate. She notes that, historically, not all Postal Services projected cost savings estimates have materialized. As would be expected, instances exist where Postal Service cost savings estimates were either overstated or, in actuality, unattainable. The instant proceeding provides a suitable example. The Postal Service's quantitative results reports through the testimonies and Request contained errors that required revisions to some of the volume and cost saving results. See *generally* Request – Errata, at 1. While the Postal Service appears to describe the revisions as minor, the overstatement of cost savings as it relates to the instant proceeding resulted in the reduction of reduced the total expected cost savings from the \$55 million figure originally presented to \$42 million.⁴⁰ As it relates to the projected cost savings, the Public Representative does not intend to imply that the Postal Service's mathematical error should be dispositive in this instance. It is merely one example of why the Postal Service should tread lightly when moving forward with these service standard changes. The Public Representative maintains that *how* the proposed service standard changes are actually implemented will be the key factor with regard to the amount of cost savings that are actually realized. For these reasons, the

⁴⁰ See Witness Kim Testimony at 9; Request – Errata, Witness Kim Testimony at 9.

Public Representative cannot recommend that the Commission rely on the cost savings estimates in the development of its advisory opinion.

As it relates to the transition from NDCs to RDCs, the Public Representative agrees with the Postal Service's assertions that streamlining the network, if fully implemented, would result in some cost savings as it would likely reduce current inter- and intra-NDC trips. However, as the Postal Service notes, the specific cost savings related to these potential network changes have not been developed and the timing of any implementation is unknown. For that reason, the Public Representative does not believe the Commission should consider the projected cost savings from the potential optimization of the NDC network in the development of its advisory opinion.

V. CONCLUSION

As previously discussed, the Public Representative recognizes the efforts made by the Postal Service in order to decrease costs, optimize its transportation networks, and improve service performance and customer satisfaction. The Postal Service's financial situation is not ideal and it should be encouraged to take whatever steps necessary to make improvements and cut costs where possible.

However, as it relates to the current proposed service standard changes, the Public Representative cannot confirm many of the Postal Service's assumptions and assertions as accurate and therefore cannot recommend the Commission rely on much of the information as it develops its advisory opinion.

Generally, many of the Postal Service's projections related to network capacity, customer satisfaction, improved on-time performance, and potential cost savings are intuitive. It seems reasonable that moving volume from a more expensive transportation option to a less expensive one would reduce costs. Similarly, it seems reasonable that, if a certain transportation network is being underutilized, it could probably absorb additional volumes. And if volumes are shifted from a volatile transposition network where interruptions occur frequently (*i.e.*, air transportation) to a more reliable transportation network with less frequent interruptions (*i.e.*, surface transportation), it seems reasonable that on-time performance and customers

satisfaction would improve, and customers would choose to continue to purchase that service because reliability has improved.

However, if the proposed changes have never been tested or implemented, any related projections are merely speculative. As such there are risks inherent to the proposed service standard changes, especially in this instance, where the product involved is a competitive product. Unlike Docket No. N2021-1, which involves market dominant products where mailers are captive and alternatives do not exist, the instant proceeding involves a competitive product, where, if customers are not persuaded by improved on-time performance, or if on-time performance does not actually improve, those customers can seek similar services with competitors, resulting in decreased First-Class Package Service volume for the Postal Service. Decreased First-Class Package Service volume would lead to decreased revenue and thus decreased contribution. This risk seems more likely as the proposed service standard changes for First-Class Package Service are entirely intertwined with the proposed service standard changes for First-Class Mail and Periodicals presented in Docket No. N2021-1. Meaning there are multiple untested, unproven proposed service standards changes being implemented.

As a result, the Public Representative suggests if the Postal Service decides to implement the proposed service standard changes for First-Class Package Service, it does so at a later date and not simultaneously with the service standard changes described in Docket No. N2021-1. The service standard changes for First-Class Mail and Periodicals can be implemented on their own and would give the Postal Service the opportunity to assess any impact that the extended service standards may have on customer satisfaction, and by extension, product volumes, revenue, and resulting contribution. The Public Representative maintains that the Postal Service should be mindful of tradeoff between the cost savings expected as the result of the instant proceeding (\$42 million) and the service degradation of a highly competitive product that currently has a net positive contribution to the Postal Service. If cost savings materialize for First-Class Mail and Periodicals, and should it appear that the surface transportation network can handle additional volume and on-time service performance

appears reliable then the Postal Service could move forward with the proposed service standard changes related to First-Class Package Service.